

Hancock Galilee Pty Ltd v Coast and Country Association of Queensland Inc. & Ors

Statement to the Land Court of Queensland

Proceedings MRA713-13 & EPA714-13 (Kevin's Corner coal mine)

Supplementary Expert Report

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Introduction

3. I have been asked by Environmental Defenders Office (Qld) Inc., to act on behalf of Coast and Country Association of Queensland Inc., to act as an independent expert witness in relation to economic issues associated with the proposed Kevin's Corner coal mine, by letter dated 14 March 2014. Specifically, I have been asked:
 - A. whether there is sufficient economic information to form an adequate basis for approval of the mine having regard in particular to potential economic impacts and the reasons for your view;
 - B. whether, having reviewed all of the EIS documents, you agree with the conclusion of Coordinator-General's assessment in relation to economics and the reasons for your view;
 - C. whether, having regard to all of the available material, there are issues that should be examined in more detail or additional lines of inquiry in relation to economics that should be explored before approval is granted and the reasons for your view;
 - D. whether, having regard to all of the available material, the cumulative economic impacts have been adequately addressed by the Applicant.
4. This letter is attached as an appendix to my earlier expert report dated 22 December 2015.
5. This report forms a supplementary report provided in accordance with Order 5 of the Orders of Member Cochrane on 17 March 2015.

My Qualifications

6. I am the Research Director of The Australia Institute, an independent research organisation based in Canberra, ACT. I have worked as an economist since 2007. I have a Bachelor of Commerce majoring in economics from the University of Melbourne. My full CV is attached as an appendix to my first expert report.

Summary of my opinion

7. Overall, my opinion is that the economic assessment of the Kevin's Corner project is:
 - A. Not suitable for decision making purposes.
 - B. Overstates the positive impacts of the project.

Kevin's Corner project economic assessment not suitable for decision making purposes

8. In our joint expert report, Mr Brown and I agree on what is, and is not, included in the economic assessment part of the environmental impact statement (the EIS) for the Kevin's Corner coal project. The EIS is largely based on an economic impact study using input-output modelling. There is no cost benefit analysis or formal assessment of revenues and financial costs. This is significant as it means:
 - A. There has been no assessment of how the project affects the economic welfare of Queensland. We do not know if the project will make Queenslanders "better" or "worse" off in economic terms.
 - B. There is no information available to decision makers as to the financial viability of the project, whether it would need Queensland Government support to proceed and how much this support might cost the Queensland taxpayer.
9. These points are not in dispute. Our area of disagreement is whether this lack of information is important for decision making purposes.
10. In my opinion, decision makers should be provided with economic assessment that assesses if the project is in the economic interests of Queensland. From an economic perspective, I think that the first consideration of any proposal to exploit the state's coal resources should be whether doing so is in the best interests of Queenslanders. Other factors that may also be of consideration include the interests of other parties, such as the Federal Government and coal companies, and the impacts of climate change. Decision makers may want to take these wider interests into consideration, but their first consideration should be whether the project makes Queenslanders better off. Mr Brown and I agree that the economic assessment does not provide this information.
11. Mr Brown considers that Queensland's decision makers should not be concerned with the economic welfare of Queenslanders when considering proposals to sell Queensland's coal. Instead, he wrote in our joint report:

The Queensland Government has formulated an assessment framework for the exploitation of energy and mineral resources developed over many years and by successive government administrations in consultation with the community. This framework allows for the extraction of energy and mineral resources subject to acceptable mitigation of impacts and the payment of Queensland Government mining royalties.

12. I note Mr Brown says the assessment framework is **for** the exploitation of resources rather than evaluation of whether a resource project is in the public interest and economically desirable. Mr Brown is consistent with his expert report on the Alpha mine proposal, where he said:

The Queensland Government has adopted a supportive position towards the development of the coal Industry...This may be the reason for the specification in the Terms of Reference of an impact assessment, rather than evaluation framework. (page 11, paragraph 22)

13. Mr Brown seems to assume either that:
- Coal projects are always in the best interests of Queensland, or
 - That economists have no role in advising governments as to whether they are or not.
14. I disagree on both points. I believe the role of economists is to advise about how resources should be used in the best interests of society. This involves using the most suitable economic tools to assess how projects and policies affect society's economic welfare. This advice may be rejected due to governments' other priorities, but it is valuable advice that should be provided nevertheless.
15. Coal projects are not necessarily always in the interests of Queensland. Impacts on communities, other industries and the environment may be greater than the benefits to the state of operating the mine. If the mine requires government subsidy to operate, this reduces the government's ability to fund other priorities such as health, education and law and order. Despite this, Mr Brown writes:
- The decision by the Queensland Government as to whether it would offer subsidies or royalty waivers is a matter for consideration outside the approval of the project. (p4)*
16. Mr Brown offers no reasoning behind this claim. In my opinion as an economist, considering what funding a government may have to provide to a project or what revenue it may forgo should be of central concern in assessing a project. Doing so clearly makes the project a "public sector project". In our joint report, Mr Brown wrote:

Cost benefit analysis is typically used in assessing whether public sector projects enhance the community's economic welfare—that is, whether they have benefits exceeding their costs. Cost benefit analysis has two roles in the public policy context (1) to simulate a market discipline to ensure capital funds, that could be used elsewhere in the economy are not wasted; and (2) to ensure all project effects are accounted for in the calculation of benefits and costs in recognition of

the broad effects of public infrastructure and the broad scope of government responsibilities. (page 2-3)

Kevin's Corner economic assessment overstates the positive impacts of the project

17. In keeping with Mr Brown's opinion that coal projects should be approved regardless of their effect on economic welfare, his assessment of economic impacts is based on an input output model that is unable to produce negative estimates of economic effects. It is impossible for such a model to produce a negative result for a project's impact on any industry. No matter how much farmland is dug up, no matter how much skilled manufacturing labour is transferred to the mining industry, an input output model can never produce a negative result. An open cut mine could be proposed for the middle of Brisbane CBD, but an input output model would still deliver positive estimates that the project increased employment and economic output. None of Mr Brown's points in our joint report actually contest this point.
18. Mr Brown thinks that building a single mine such as Kevin's Corner would result in almost 4,000 jobs being created in manufacturing, but as shown in my earlier report unprecedented levels of mining investment have resulted in no change to manufacturing employment in Queensland. If anything there is a slight downward trend. If Mr Brown's model is correct, manufacturing employment in Queensland should be booming. It is not.
19. Mr Brown's explanation that manufacturing is affected by other factors and that mining investment statistics include consideration of imported goods may be true. However, these points do not change the fact that there is absolutely no empirical data to support the results of his model – that mining projects drive significant manufacturing employment.
20. I agree with some of Mr Brown's criticisms of other modelling approaches, such as computable general equilibrium models. However, the results of these models – that mining projects result in small increases in overall employment, but that they negatively impact on industries such as agriculture and manufacturing – are supported by official data. Mr Brown's modelling results are not supported by official data and are not supported by conversations I have had with farmers and representatives of the manufacturing industry in recent years.

Further points from joint report

21. Mr Brown takes issue with the idea that provision of infrastructure to the coal industry constitutes a subsidy to the industry, as much of it is accessed on a user pays basis. Mr Brown ignores the statement of Queensland Treasury, quoted in my first report:

There is a real opportunity cost for governments in undertaking the initial capital expenditure. Governments face budget constraints and spending on mining related infrastructure means less infrastructure spending in other areas, including social infrastructure such as hospitals and schools. (quoted on page 10, paragraph 51 of my report, originally from Queensland Treasury (2013) page 15)

22. In addition to the burden of the initial investment mentioned above, the expected level of user-pays fees are not always realised, resulting in further public subsidy, as the Western Australian treasury also makes clear:

[The provision of mining infrastructure by state governments] incurs a significant subsidy cost, reflecting the opportunity cost of 'in-advance' provision (and the risk of projected future demand not materialising). Many areas of Western Australia require crucial State investment for the future in port, road, rail, usable land, water and power infrastructure that would be under provided if left to the private sector and/or solely user-pays funding.(WA Government, 2011, p21)

23. If the Queensland government agrees to any further provision of infrastructure relating to Kevin's Corner or other Galilee Basin project, I think it is likely it would result in a significant subsidy cost to the government.
24. Mr Brown also takes issue with my opinion that Galilee Basin coal projects are financially marginal and my reference to would-be Galilee Basin miner Bandana Energy, which has gone into administration. While I agree that many factors are involved in Bandana's financial difficulties, the example is real-world support for my opinion. My opinion is also shared by many others including the International Energy Agency:

Given the huge investment costs, current low coal prices and oversupply of the seaborne market, these [Galilee Basin] projects are unlikely to actualise during the [5 year] outlook period. (IEA, 2014, Page II-30)

25. In my opinion the economic assessment of environmental values in the environmental impact statement is not useful, due to the methodological issues outlined in my earlier individual report. Mr Brown's response in our joint report is:

An alternative approach to that adopted in the economic assessment could have been to use the unimproved value of land directly impacted by the project to ascertain the willingness to pay of the community to preserve that land for conservation and the provision of its ecosystem services. A review of unimproved land values for properties directly impacted by the Mining lease indicate an unimproved land values of between \$34/ha and \$170/ha, which even if were

paid annually would fall well below the valuation parameter used within the economic assessment (i.e. \$200/ha/year).

26. Mr Brown here seems to not understand the basics of environmental economics. Assessing the total economic value of an environmental asset involves more than just taking a basic estimate of unimproved land value of the mine site. A range of direct use, indirect use and non-use values may be relevant to environmental impacts that could occur both on and off-site. For example, impacts on an aquifer could affect downstream users and groundwater dependent ecosystems and organisms in different areas. The transport of coal through residential areas can affect human and animal health thousands of kilometres from the mine site. Environmental economics has a range of tools that can be used to estimate the value of such impacts in dollar terms.
27. A detailed environmental economic assessment of the impacts of the Kevin's Corner project would be a considerable piece of work, not possible in this report or our joint expert report. In my opinion, at least parts of this should have been attempted in the environmental impact statement. No such evaluation was conducted to a professional standard in the economic assessment of the project.

Conclusion

28. As stated above, in my opinion the economic assessment of the Kevin's Corner EIS is not suitable for decision making purposes. My expert meeting process with Mr Brown has helped me understand some of his opinions, but has not changed my strong conclusion that his assessment does not demonstrate that the project is in the best interests of Queensland and that his estimates heavily overstate the project's positive impacts while downplaying its serious potential costs to the state.

Expert's statement

29. I confirm the following:

- A. The factual matters stated in this report are, as far as I know, true;
- B. I have made all enquiries I consider appropriate;
- C. These opinions are genuinely held by me;
- D. The report contains reference to all matters I consider significant;
- E. I understand my duty to the court and have complied with this duty;
- F. I have read and understood the Land Court Rules 2000 on expert evidence;
- G. I have not received or accepted instructions to adopt or reject a particular opinion in relation to an issue in dispute in the proceeding.

A handwritten signature in blue ink, appearing to read "Roderick E.S. Campbell".

Roderick E.S. Campbell,

23 April 2015

Appendix I – References

- IEA. (2014). *IEA Statistics - Coal information*. International Energy Agency, Paris, France. Retrieved from www.iea.org/statistics
- Queensland Treasury. (2013). *Queensland Treasury Response to Commonwealth Grants Commission: Response to Terms of Reference for Commonwealth Grants Commission 2015 Methodology Review*. Retrieved from https://www.cgc.gov.au/index.php?option=com_attachments&task=download&id=1728
- WA Government. (2011). *GST Distribution Review: WA Submission*. Submission to the GST Distribution Review, October 2011. Retrieved from http://www.gstdistributionreview.gov.au/content/submissions/downloads/issues_paper/wa_gov.pdf